MPERS
GASB Statements 67 and 68

GASB and GAAP, Why Do They Matter?

The Governmental Accounting Standards Board (GASB) is an independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that adhere to generally accepted accounting principles (GAAP). The mission of GASB is to establish and improve financial accounting and reporting standards and guide and educate the public and users of those financial statements. GAAP is a common set of accepted accounting principles, standards, and procedures for organizations designed to improve financial reporting. The use of GAAP ensures transparency and a minimum level of consistency in organizations' financial statements leading to easier comparisons across all organizations. Financial statements must be prepared in conformity with both GASB standards and GAAP in order to receive a clean audit opinion. MPERS' success in following these standards, obtaining a clean audit opinion, and producing a quality annual report is substantiated by receipt of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, an award the system has received each year since 2005.

GASB Statement 67 – Financial Reporting for Pension Plans

The objective of GASB Statement 67 is to improve financial reporting by state and local governmental pension plans. For defined benefit pension plans such as MPERS, this statement establishes standards of financial reporting and specifies the required approach to measuring the net pension liability of covered employers. The new information is intended to enhance the decision-making usefulness of the financial reports, to add value when assessing accountability, to enhance comparability with other pension plans, and to enhance transparency. A few of the more important enhancements that were made to reporting in the financial statements are noted below.

- Information is provided regarding measures of net pension liabilities and explanations of how and why those liabilities changed from year to year.
- The contribution schedule provides measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates and provides information about whether or not employers are keeping pace with actuarially determined contributions.
- Information about rates of return on investments informs users about the effects of market conditions on the plan's assets over time, provides information to assess the relative success of the plan's investment strategy, and allows assessment of the

contributions that investment earnings provide to the plan's ability to pay benefits to plan members.

GASB Statement 67 – Potential Issues

There are a number of new terms and definitions associated with this statement. Terms like fiduciary net position, net pension liability, or total pension liability are similar but different relative to the historically recognized measures associated with funding defined benefit plans. It is important to recognize that GASB Statement 67, and these new terms required comprehensive changes to plan reporting but were only applicable to plan reporting, not to the funding of the plan. For plan funding information, readers should refer to the annual valuation results produced by the actuary.

GASB Statement 68 – Financial Reporting for Pensions by Covered Employers

Where GASB Statement 67 applies directly to the financial reporting of the pension plan, GASB Statement 68 establishes accounting and financial reporting requirements for employers *covered* by the pension plan. The ultimate result of GASB Statement 68 is that each covered employer reports its proportionate share of pension plan liabilities. While GASB Statement 68 had little effect on MPERS' financial reporting beyond additional disclosures in the notes of the financial statements, it did have a meaningful impact on the primary covered employers by requiring additional information in their financial statements.

For additional details regarding GASB Statements 67 and 68, please see this FAQ.